

Community Venture Planning

January 22-23, 2010

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Insight Center for Community Economic Development



HELPING PEOPLE AND COMMUNITIES BECOME, AND REMAIN, ECONOMICALLY SECURE

Insight Center Overview

Formed in 1969, the Insight Center for Community Economic Development (formerly NEDLC) is a national research, consulting, and legal organization that develops and promotes innovative solutions that help people and communities become, and remain, economically secure.

Insight Center Program Areas

Workforce Development
Early Care and Education
Savings and Asset Building
Legal Services



Phase I: Venture Development

Identify/Select Venture

- Establish **process** for selection
- **Who** will be involved in decisions/selections?
- **How** will decisions/selections be made?
 - Advisory Committee

Phase I: Venture Development

Identify/Select Venture

- **Adopt** strategies, goals, & venture selection criteria
- **Select** 2-3 venture possibilities for further analysis (i.e. initial feasibility study)
- **Complete** internal assessment of org's policies and operations
- **Create** work plan for the Development Phase (i.e. detailed feasibility study, business plan)

Phase I: Venture Development

Selection Tips (“Do’s”)

- Selection criteria should be **explicitly** linked to organization’s goals
- Set priorities on each criterion
- Balance social & business criteria
- Consider community, org, & business perspectives

Phase I: Venture Development

Selection Tips (“Don’ts”/Common Errors)

- Nonprofits often confuse community need with market or demand
- Nonprofit ventures sometimes have too many goals
- Nonprofits often have a one-year funding mentality and insufficient working capital
- Unrealistic profit expectations
- Management needs for enterprise v. nonprofit

Venture Development Process

Examples of Selection Criteria

- Venture relationship to agency mission
- Risk factors
- Size of profits to be expected, when, self-sufficiency
- Employment/training impact/opportunities
 - # jobs that will be made available to community
 - opportunities for mgmt skill development/job upgrading
- Possibilities for community control/decision-making, ownership
- Community impact
- Support from the community

Phase I: Community Organization

Economic Venture efforts require inclusion of a wider group of people than are traditionally involved

- Public Sector (local, state gov't)
- Private Sector (bankers, realtors, merchants, lawyers, accountants, marketing, advertising, etc.)
- Low-Income Community
- Legal Services Offices, Educational Institutions, Other Community Resources

Participation on Advisory Committee may be one way to engage some of these sectors/individuals

Phase II: Development

- Work Plan
 - Feasibility Studies
 - Business Plans
 - Financing
- Legal Issues
 - Corporate Structuring
 - Operational Issues



Elements of a Feasibility Study

- Product or service defined
- Market - Overall, define potential customers, estimate #, estimate market share
- Competition - Who, how many, reaction, new entrants
- Organization - Management and personnel needed, legal structure

Elements of a Feasibility Study

- Finance:
 - Initial capital – development expenses, initial operating expenses, reserve
 - Breakeven analysis – sales needed, when
 - Profit and loss statement/income and expense statement-monthly projection
 - Cash flow projection – monthly
 - Return on investment analysis – ratio of profit to amount invested, compare to industry averages

Elements of a Business Plan

- Industry and business
- Product and services to be sold
- Market – Size, trends, competition, market share
- Marketing plan – pricing, distribution, promotion
- Timeline – Pre-startup and startup plans and schedules
- Operating plan
- Organization and management
- Community benefit

Elements of a Business Plan

- Financial plan – Initial capital, proposed financing, projected profit and loss, balance sheet, cash flow, breakeven analysis
- Monitoring plan
- Critical risks and assumptions

Corporation Structuring: 501(c)(3)

- **Incorporation** – check state requirements
- **Tax-exemption application**
 - **Each homestead associations must be an IRC Section 501(c)(3) charitable organization**
 - organized and operated exclusively for charitable purposes
 - activities do not benefit any private person or interest
 - assets are irrevocably dedicated to charitable purposes



Why Establish a Subsidiary ?

- **Protect** organization's tax-exempt status
- **Insulate** organization from liability associated with the business
- **Obtain** financing from conventional sources
- **Attract** staff and board members with business experience

Forming the Subsidiary: Choice of Entity

Most common choices

- **Limited Liability Companies (LLCs)**
- **Corporations**



Pros and Cons of LLCs

- Ease of Formation
- Operating Flexibility
- Ease of establishing complex profit distribution schemes
- Flexible taxation
 - May elect to be taxed as a corporation or partnership
- *But* -Relatively New form of Entity
 - Law of LLCs is relatively undeveloped and many issues remain open
 - May be harder to establish separate identity of parent



Corporation Structuring: Joint Ventures

Joint Ventures

Two or more persons engage in a joint undertaking

- Individuals, corporations or other entities
- Typically a business venture for profit

Common forms:

- Limited liability company (LLC)
- Limited partnership (LP)



Joint Ventures: Sufficient Authority

“Good” provisions

- org had active role in managing the JV
 - Managing member or general partner
- limits on the for-profit's ability to:
 - Remove the org as managing member or general partner or
 - Amend the agreement
- JV's activities are limited to those that further org's exempt purposes

Phase III: Implementation

Real Estate Development Overview

- Determining **Market** Feasibility
 - Need v. Demand
 - Feasibility Study
- Determining **Financial** Feasibility
- Securing Financing
- Public Approvals
- Design & Construction Process
- Planning for Operations

Is Your Organization Ready ?

Do you have a comprehensive plan ?

- Have a clear project concept – Establish goals for real estate development, use goals to evaluate proposed projects
- Generate concepts through needs assessment or opportunity identification
- Refine project concept – Define tenants to be served, affordable rent, particular physical requirements, site location, estimate project costs, project size
- Test the concept – Review constraints such as financing, market, regulatory issues, community

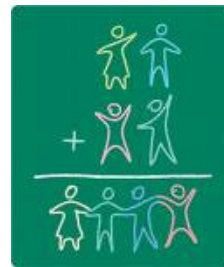
PLAN FIRST!

Is Your Organization Ready?

- Development Calendar – Tasks, deadlines, who
- Budget and Financing plan – Seed capital needed to pay predevelopment costs such as feasibility analysis
- Analysis of effect on existing programs
 - Need for additional staff
- Risk management
 - Development entity
- Operating plan
 - Tax issues

More Readiness Questions

- **Have you assembled the team? How were consultants chosen?**
 - Staff capacity to manage project
 - Board readiness
 - Committee structure
 - Attorney
 - Financial consultant
 - Real estate project manager
 - Architect, engineer, contractor
- **Do you have community buy-in ?**
 - “Entitlement” process



Community Benefits

- Introduction to Community Benefits Agreements:
- Jobs
- Job Training
- Community Facilities
- Procurement Relationships



DEPARTMENT OF HAWAIIAN HOME LANDS

Aloha!

**DHHL Homestead Leadership
Conference**

**Waikiki Beach Marriott Resort & Spa
January 22-23, 2010**

Land Management Division

Work with homestead organizations that have complied with the Kulia I Ka Nuu requirements and to support community development and self-sufficient economic projects in their homestead area.

Hawaiian Homes Commission Act Section 204.2

The department may in the management of any retained available lands not required for homesteading purposes, lease the land for revenue generating purposes to the general public, on the same terms, conditions, restrictions, and uses applicable to the disposition of public lands in Chapter 171, Hawai'i Revised Statutes.

Chapter 171-43.1, HRS, as amended Lease to eleemosynary organizations

The Board may lease, at a nominal consideration, by direct negotiation...to an eleemosynary organization which has been certified to be tax exempt under section 501(c)(1) or 501 (c)(3) of the Internal Revenue Codes of 1986, as amended

IS YOUR ORGANIZATION READY

- **Compliance with Kulia**
- **Potential land identified**
- **Feasibility completed**
- **Clear project concept**

Objectives

Homestead organization should then:

- 1. Determine type of land use:**
 - **Commercial**
 - **Industrial**
 - **Mixed Use Development**
- 2. Determine within that land use designation the types of use that are incompatible with the neighborhood or create significant negative impact on the community**
- 3. Obtain appraisal to determine upset fair market rent for the property**

Criteria to consider

When negotiating with potential tenants, homestead organizations should consider:

- **Development team**
- **Experience**
- **Financial capability**
- **Proposed development concept**

DEVELOPMENT TEAM

- **Find out who are the team members**
- **Ask for Incorporation documents**
- **Ask for a current Certificate of Good Standing**
- **Ask for a Tax Clearance Application stamped by the IRS and State Tax Office**

EXPERIENCE

- How many similar projects the development team has completed
- Individual experience for each members, in capacity that will demonstrate experience in the specific area/field of operation as the applicant's principal activity for not less than two of the last five years. The applicant may establish eligibility through production of a resume
- Knowledge of and personal experience in dealing with federal and state regulations and agencies governing such proposed project

FINANCIAL CAPABILITY

- Ask for current financial statements, financial commitments from lending institutions, any/or any documents identifying other financial resources which the development team is relying upon to complete the project
- Ask for a estimated construction budget/estimate
- Ask for a non-refundable "Earnest Money Deposit"

PROPOSED DEVELOPMENT CONCEPT

- **Ask for a narrative of a proposed development plan, including phasing, describing the intended uses**
- **Ask for a proposed site development plan**
- **Ask for a estimated construction schedule**
- **Ask for Letter of interest/commitment from potential tenants**

Evaluation

- **Set selection criteria**
- **Negotiate agreement w/ legal assistance**
- **Community Benefits v. Consistence revenue stream**

RESPONSIBILITY of Being A General Lessee

- **Statutory requirements of Chapter 171 – DHHL consent to all actions, including mortgage, sublease, assignment of lease, approval of construction plans, etc.**
- **Subject to all state and county rules, including grading & building permits, health & safety regulations, no other exemptions**
- **Subject to the Environmental Impact Statement requirements prior to construction**
- **All other standard terms and conditions of a general lease**

Be creative.

Your next great idea could be a partnership with the Department of Hawaiian Home Lands.





DEPARTMENT OF HAWAIIAN HOME LANDS

Mahalo!

www.dhhl.hawaii.gov